

# **GP&L T&D Capital Reimbursement**Audit

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March 24, 2014 Report 201350

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#### **Authorization**

We conducted an audit of the Garland Power & Light (GP&L) Transmission and Distribution (T&D) Capital Improvement Program (CIP) reimbursement billing and collection process. The audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter. The audit was not included in Internal Audit's (IA) FY 2013 Annual Audit Plan. The review was initiated by a fraud hotline call in March 2013. A GP&L employee contacted IA as he/she was concerned about GP&L's CIP reimbursement billing process. The employee indicated that GP&L did not bill one of the transportation entities for \$117,033 in reimbursements. At this time, IA conducted an investigation. Even though our investigation revealed no evidence of fraud, several internal control weaknesses in billing and collection process were identified. IA and GP&L were also able to determine that GP&L did not bill for \$143,976 (\$26,943 more than what the GP&L employee was aware of) to the mentioned transportation entity. At this time, IA and GP&L's management agreed to expand this into an audit to include all CIP reimbursement contracts executed since October 2008. The Audit Committee Chairman's approval was obtained and the City Council was notified prior to the initiation of this audit.

# Objective

Determine if GP&L has appropriate policies and procedures in place to ensure accuracy and completeness of CIP reimbursement billing and collection process.

#### Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit period covered CIP Reimbursement agreements signed between October 2008 and April 2013. All of these projects were completed before the initiation of the audit and no other CIP Reimbursement projects were in progress during the audit.

To adequately address the audit objective and to describe the scope of our work on internal controls, we performed the following:

- Obtained and reviewed GP&L's agreements with three major transportation entities dated between October 9, 2008 and March 2, 2011 to gain an understanding of the size and scope of the projects reviewed.
- Verified if policies and procedures were in place during the course of these projects.

- Reviewed applicable City directives to determine if directives define authorization limits for the projects reviewed.
- Obtained and reviewed the general ledger with the associated charges for these specific jobs to reconcile with job cost and invoice documentation.
- Obtained, reviewed and compared inventory issued from the warehouse, to materials charged in the general ledger for each job to reconcile with General Ledger accounts.
- Obtained, reviewed and compared employee labor and equipment hours listed on time sheets, to what was charged in the job cost system for each job (See Exhibit A) for reconciliation with Time Sheets.
- Compared third-party costs recorded in the job cost system to the reimbursement invoices submitted to the three major transportation entities (See Exhibit B) to determine if third-party costs matched reimbursement request documentation.
- Compared the project initiation dates to agreement dates and invoice completion dates to determine timelines of the projects and the reimbursement payments received.
- Searched OnBase, the City Secretary's document management system, to determine if any agreements associated with each of the jobs and third-party vendors sampled were filed with the City Secretary's office.

We assessed the reliability of the job cost data provided by the department by (1) reviewing existing information about the data, (2) interviewing agency officials knowledgeable about the data, and (3) tracing the data to/from source documents. As a result, we could not determine the reliability of the data provided because it was often incomplete and did not reconcile with source documents.

#### **Overall Conclusion**

This audit revealed no evidence of fraud, however, several internal control weaknesses in GP&L T&D's CIP reimbursement billing and collection process were identified. Weaknesses found are listed below:

- GP&L did not bill an entity for \$143,976.33 in equipment costs and an additional \$105,837.23 in professional services and materials costs. GP&L subsequently recovered \$143,376.33.
- City's third-party vendor invoice amounts listed on the reimbursement invoices did not always match with what was recorded in the job cost system.
- One reimbursement agreement wasn't executed until 99.9% of the project was completed
- In all instances reimbursement invoices were not processed until each project was completed.
- None of the reimbursement agreements or third-party vendor agreements was filed with the City Secretary's office.

# **Background**

Between October 2008 and April 2013, GP&L's T&D entered into agreements with three major transportation entities. The agreements covered five capital improvement projects, requested by these entities. The main objective of these agreements was to relocate or adjust GP&L utilities to accommodate capital improvements in various City locations. Details of these agreements are outlined below:

Findid: Nome		Durmaga	Date of	Agreement Est. + Change orders
Entity Name		Purpose	Agreement(s)	Amount
Entity A	(a)	Eastern Extension of President George Bush Turnpike – Ben Davis Rd., Wynn Joyce and Firewheel	10/09/2008	\$1,309,064.45
	(b)	Eastern Extension of President George Bush Turnpike – Ben Davis Rd. and Firewheel	10/09/2008	\$1,136,044.00
			Total	\$2,445,108.45
Entity A	(a)	Eastern Extension of President George Bush Turnpike - Ben Davis Rd.	08/04/2008	\$340,219.00
	(b)	Eastern Extension of President George Bush Turnpike – Zion, Chaha Rds. And IH30	10/01/2008	\$312,780.58
			Total	\$652,999.58
Entity A	(a)	Eastern Extension of President George Bush Turnpike – Zion and Chaha Rds.	01/01/2009	\$430,461.23
	(b)	Eastern Extension of President George Bush Turnpike – Peninsula Way at IH30	07/01/2010	\$153,363.00
			Total	\$583,824.23
Entity B		IH-635 GP&L Utility Relocations	06/02/2009	\$226,130.00
Entity C		DART Blue Line Extension LRT Rowlett – R1 Project	03/02/2011	\$3,485,155.00

Source: Agreements

projects, which the assistan- estimation, s	e entities agre- ch included mat ce of third-par pecial order m bursement for t	erials, labor a ty vendors f naterials and	and equipmer or work suc easement p	it used. In ach h as engine	ddition, GP&L eering consul	required ting and

#### **Management Accomplishments\***

GP&L agrees that at the time the reimbursable projects in question commenced that appropriate policies and procedures were not fully in place for the invoicing of reimbursable projects. In addition, at the time of the commencement of these projects, a new accounting process was being implemented and there did not exist of full understanding by the GP&L department in question on how to best utilize the new accounting process. However, we believe it is important that there is an appreciation and understanding of the significant advancements that GP&L has realized with regards to processes associated with capturing and recording its fixed assets since the projects in question commenced. The following provides a brief overview of the significant changes GP&L has made for fixed asset accounting.

In 2005, GP&L retained the services of an outside firm to conduct an assessment of the appropriateness of the value of the assets recorded in the City's fixed asset register for GP&L. From that effort, it was determined that additional detail was needed in the fixed asset register for retirement units to be identified, project cost management and reporting to be performed, and project documentation for regulatory and audit purposes. In FY 2008, GP&L began using the job costing feature in Cayenta, the City's financial system, to charge capital costs to Construction Work-in-Process (CWIP). Prior to FY 2008, costs for capital projects were charged directly to account numbers, which limited the ability to record and track specific costs by individual project or task. In many cases, what was added to the asset registry had very little detail. Job costing allows for costs to be captured by individual project. This benefits the project managers in managing project costs, as well as the accountants with closing the projects and recording the assets. Through job costing, GP&L now has a detailed registry of specific assets rather than a grouping of nondescript assets.

In FY 2009, GP&L engaged its first, full-time accountant to work with Financial Services in developing and refining accounting processes and procedures associated with GP&L fixed assets. In addition in FY 2009, GP&L, rather than Financial Services, began closing CWIP projects; this allowed capital projects to be closed more timely. Prior to FY 2009, projects were not always closed in a timely manner, and in some cases, projects were not closed until a couple of years after being placed into service. In some cases this lag in closing projects contributed to incomplete reviews from project managers on the costs and detail placed in the asset register. In addition, prior to FY 2009, projects were closed on an annual basis; GP&L now closes projects on a quarterly basis.

In mid-FY 2010, GP&L began entering its own journal entries. Also during this time, GP&L retained the services of a consultant to develop a new Work Force Management (WFM) system. This was because there was no link between the work order numbers contained in the WFM system and the project and job cost number in the general ledger. Also, the existing WFM system had additional issues, one of which was a concern that it may crash. In FY 2011, GP&L went live with its new WFM system. The new system has built-in work flow, job costing validation based on job types, and history for each service requisition (SR). The work flow starts at the project design stage and ends with accounting entering the assets in the fixed asset register.

In March 2013, IA was contacted by a GP&L employee regarding the possible deficiency of fully invoicing in January 2012 a transportation entity for reimbursement of work done by GP&L. Upon investigation, it was determined that a vendor invoice and equipment costs for the work were inadvertently excluded from the invoice to the transportation entity. Fortunately, while this review was being conducted, the transportation entity requested GP&L provide any unbilled

amounts to them so that they could close out the project. GP&L invoiced and received payment for the unbilled costs in question. Subsequent to the discovery of the unbilled costs, GP&L management requested that IA conduct a review of GP&L's policies and procedures to ensure accuracy and completeness of capital project reimbursement billing and collection processes.

In FY 2013, improvements were made to the timesheets used by Transmission and Distribution field personnel. Instead of providing job cost numbers for their time, field crews provide SR numbers, which can be validated against the WFM system for accuracy. It should be noted that GP&L does not have an automated timekeeper system, but uses MS Excel spreadsheets. Sometimes employees are required to submit estimated timesheets that may require editing after submittal. Edited timesheet labor was not submitted by the department for updating of job costing in the financial system. In IAs review of the 20 timesheets, each covering a two-week pay period, there were a total of 645 hours billed to the projects, of which a net of 3 edited hours, or 0.5% of the 645 hours, should have been charged to the projects.

In FY 2013, GP&L revised its processes and procedures as they relate to engineering and professional service agreements entered into by GP&L. GP&L now incorporates Purchase Request procedures into its processes for executing engineering and professional service agreements that exceed \$3,000. Under this new procedure, one original signed document is sent to the vendor by GP&L and a second original signed document is sent to the Purchasing Department and then forwarded to the City Secretary for filing.

During the audit process in 2013, GP&L worked with IA to develop a formalized procedure for reimbursable capital projects, which requires a review of project costs by project managers with GP&L Accounting and invoicing through GP&L Finance and Financial Services.

Today, things are much different than they were in FY 2009. Capital project managers now understand how job costing can be used to help them in the management and reporting of their projects and work with GP&L Accounting and WFM in setting up the account structures to capture the information in the form that is needed. When a project is completed, GP&L Accounting is notified via WFM. GP&L Accounting and the manager over the capital project work closely to review costs and closeout the project. On larger projects, the project manager reviews costs throughout the duration of the project and communicates regularly with GP&L Accounting. Missing costs or unexpected charges are researched for explanation and/or correction. GP&L Accounting can now report on CWIP by SR number and look for SR numbers that are completed but have not been closed.

<sup>\*</sup> Please note that "Management Accomplishments" are written by the audited entity and that Internal Audit did not audit or verify its accuracy.

#### **Opportunities for Improvement**

During our audit we identified other areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the "opportunities for improvement" section presented in this report may not be all-inclusive of areas where improvement might be needed.

# Finding #1

#### Condition (The way it is)

IA's comparison of City's invoices to the three major transportation entities with what was recorded in City's job cost system and supporting evidence (third-party invoices, employee time sheets, equipment usage records, etc.) and corroboration with GP&L accounting personnel revealed the following exceptions:

- City did not bill Entity A for approximately \$143,976.33 in equipment and third-party vendor costs. Upon further investigation, an additional \$105,837.23 in unbilled professional services and materials costs was revealed.
- City's third-party vendor(s) costs listed on the reimbursement invoices did not always match with what was recorded in the job cost system. IA was unable to verify whether the City accurately generated reimbursement invoices.
- On a few occasions, labor charges entered into City's job cost system were not updated to reflect the actual time employees spent on certain projects.

#### Criteria (The way it should be)

- Policies and procedures should be in place to ensure responsibility and accountability.
- An appropriate reconciliation process should be in place to ensure accuracy and completeness of bills generated.
- All expenses should be recouped from transportation entities.

#### Effect (So what?)

- Potential loss of money and reputation
- Lack of accountability and audit trail

# Cause (Difference between condition & criteria)

- Appropriate policies and procedures were not in place during these projects.
- Job cost data was not reconciled with the manager's tracking spreadsheet and supporting documents.
- Not all reimbursement invoices were processed through GP&L's Accounting department.
- Not all third-party invoices billed to the reimbursing entity were reconciled with City's job cost data to ensure accuracy and completeness.
- Edited time sheets were not forwarded to Finance to ensure they were

appropriately updated in the job cost system.

#### Recommendation

Management should consider:

- Developing appropriate policies and procedures to ensure accountability and responsibility of project tracking and costs.
- Developing an appropriate reconciliation process to ensure the accuracy and completeness of materials, labor, equipment and third-party costs before invoices are processed.
- Ensuring that reimbursement invoices are processed through GP&L's Accounting department.
- Negotiating with Entity A to recover the unbilled professional services and materials costs.

**Note:** Upon notification of the missing funds, management subsequently billed and received \$143,376.33 from Entity A. In addition, management developed policies and procedures for future projects of this nature.

#### **Management Response**

GP&L agrees with IA's findings that Entity A was inadvertently not billed for \$143,976.33 in project costs and that appropriate policies and procedures were not fully in place for the invoicing of reimbursable projects during these projects. In July 2013, Entity A requested that GP&L provide any unbilled amounts so that they could close out the project in question. GP&L submitted an invoice for recovery of the \$143,376.33, which Entity A paid. As part of the continuation of the internal audit, in February 2014, GP&L discovered an additional \$105,837.23 in costs that were not billed for the reimbursement projects. Given the timing of the discovery of these additional costs, in conjunction with that fact that some members of T&D management that were with GP&L at the time of the projects being constructed are no longer with GP&L, at the time of this response, GP&L has yet to ascertain what amount of the \$105,837.23 could be eligible for reimbursement. In addition, final billings have already been requested by and provided to the transportation entities, limiting additional eligible cost recovery.

#### **Action Plan**

GP&L, with input from IA, has developed internal procedures for the invoicing of reimbursable construction projects and have provided these to T&D management to implement for future reimbursable projects.

#### **Implementation Date**

**Immediately** 

#### **Auditor's Comment**

IA's inquiry of differences between third-party vendor payments listed in City's job cost system and itemized third-party costs attached to City invoices, led to GP&L's

discovery of the additional \$105,837.23 in unbilled costs. Our review of the general ledger account associated with the additional unbilled costs revealed that these were for professional services and materials. IA believes that an attempt to negotiate the recovery of such costs, even if partial, can additionally minimize the impact of the loss.

# Finding #2

#### Condition (The way it is)

IA's review of timeliness of GP&L's agreement execution and invoicing revealed the following:

- A. One agreement wasn't executed until 99.9% of that project was completed (See Exhibit B).
- B. In all instances, City invoices were not processed until each project was completed (See Exhibit B).

# Criteria (The way it should be)

- A. A project with an outside vendor should not be initiated until all terms and conditions are finalized and an agreement has been executed.
- B. The Percentage-of-Completion method of agreement payments should be used in agreements of this size and scope. The Percentage-of-Completion methodology allows the City to obtain compensation for work performed periodically throughout the project, thereby reducing liability and allowing for proper review and reconciliation throughout the process.

#### Effect (So what?)

- A. Reimbursement of project cannot be ensured without an appropriate agreement in place.
- B. Reimbursements were not received until the end of each project. City had to use its own resources to compensate for costs throughout each project. Lack of timely review and reconciliation may cause inaccuracy in billing and collection.

#### Cause (Difference between condition & criteria)

- A. Management did not properly plan and execute the agreement until the end of each project.
- B. The language in each agreement stipulates that reimbursement will occur "upon completion of the work" and is defined as Completion method of payment.

#### Recommendation

Management should consider:

- A. Ensuring that an agreement is executed prior to initiation of a project.
- **B.** Negotiating and including language in future agreements to stipulate a Percentage-of-Completion method of payment rather than an Agreement Completion method of payment.

# **Management Response**

Management agrees with IA's recommendations that reimbursement agreements should be executed before the initiation of a project and that Percentage-of-Completion is preferred to Agreement Completion as a method of payment.

# **Action Plan**

GP&L will require executed reimbursement agreements to be in place before the initiation of a reimbursable project. GP&L will also work to negotiate more favorable terms for payment associated reimbursable projects.

# **Implementation Date**

Immediately

#### Finding #3

# Condition (The way it is)

City Secretary Directive 5 establishes the process for filing active original contract documents in the amount of \$1,000 or more, signed by a duly authorized representative of the City of Garland and an outside party. This directive also applies to letter agreements.

- A. In our review of agreements initiated by the department between entities associated with these jobs and third-party vendors, IA found that none of the reimbursement agreements or third-party vendor agreements initiated were filed with the City Secretary's office.
- B. In addition, the Directive's threshold for filing agreements does not match with the Purchasing Directive 1 regarding purchases over \$3,000.

#### Criteria (The way it should be)

- A. City Secretary Directive 5 stipulates that professional service agreements/contracts and other agreements for \$1,000 and more be filed with the City Secretary's office.
- B. City Secretary Directive 5 amount threshold should match Purchasing Directive 1 regarding purchases over \$3,000.

# Effect (So what?)

- A. Lack of audit trail and compliance.
- B. Confusion regarding the dollar amount threshold that should be filed with the City Secretary.

# Cause (Difference between condition & criteria)

- A. GP&L was unaware of the requirement.
- B. City Secretary Directive 5 has not been updated since 3/18/1997.

#### Recommendation

- A. Management should ensure that all original professional service agreements/contracts and other agreements signed by an authorized representative of the City of Garland are filed with the City Secretary's office.
- B. City Manager should consider updating City Secretary Directive 5 to match the Purchasing Directive 1 amount threshold.

# **Management Response**

- A. GP&L agrees with IA's finding that the reimbursement agreements and third-party vendor agreements were not provided to the City Secretary's office. In September 2013, GP&L revised its processes and procedures as they relate to engineering and professional service agreements entered into by GP&L. GP&L now incorporates Purchase Request procedures into its processes for executing engineering and professional service agreements that exceed \$3,000. Under this new procedure, one original signed document is sent to the vendor by GP&L and a second original signed document is sent to the Purchasing Department and then forwarded to the City Secretary for filing.
- B. City Manager agrees with IA.

#### **Action Plan**

- A. GP&L will continue submitting all professional service agreements and engineering service agreements \$3,000 or more that are signed by an authorized representative of the City via the purchasing process that will provide copies to the City Secretary. GP&L will begin forwarding new reimbursement agreements to the City Secretary.
- B. City Management will update City Secretary Directive 5 to align with the current purchasing threshold of \$3,000 as noted in Purchasing Directive 1.

# **Implementation Date**

- A. Immediately
- B. April 30, 2014

#### Exhibit A

# **Sampling Methodology**

# **Labor Charges**

To add labor charges to the job cost system, a time sheet in Microsoft Excel is completed for each employee. The Excel spreadsheet is printed, signed by the employee and maintained in the department. Once all time sheets are completed per pay period, the Excel files are forwarded to Finance to be added to the job cost system. The job cost system calculates the charges based on the number of hours entered into the system for each employee.

We reviewed time sheets associated with labor charges in the projects identified in this audit. Our sample selections were based on the Sequential sampling methodology and our purpose was to trace the time sheets to and from source documentation. We chose this method of sampling to determine if exceptions were present.

We initially selected 10 electronic and 10 printed copies of the time sheets. IA found one exception when we traced the printed copy of the time sheets to the job cost system. As a result of the Sequential sampling methodology requirements, we expanded our sample size of the printed time sheets by 19 to determine if any other discrepancies could be detected.

Our review of the printed time sheets revealed a 20% discrepancy, 6 out of 29 printed time sheets, did not match with labor charges in the job cost system. We inquired with both the department and with Finance and found that these 6 printed time sheets were edited for various reasons after they were provided to Finance for inclusion in the job cost system. Based on the result of this test, we believe this may have occurred throughout the project. Due to the fact that the exceptions did not occur consistently per pay period and the lack of available documentation to review prior to FY2010, we are unable to project the results to the entire population.

Exhibit B

# **Agreement Initiation Comparison**

Entity	Earliest Agreement Date	Completion Date	Invoice Date	Payment RCVD Date	Job Cost	Cost of Services Performed prior to Agreement Execution	Percentage of Completion Prior to Agreement Execution
Entity A	10/09/2008	11/13/2009	11/25/2009	03/22/2010	\$ 2,136,789.54	\$ -	0%
Entity A	08/04/2008	1/5/2010	12/31/2009	02/22/2010	\$555,443.40	\$14,555.00	3%
Entity A	01/01/2009	11/30/2010	(1)	03/21/2012	\$456,345.53	\$ -	0%
Entity B	06/02/2009	9/30/2010	9/30/2010	12/06/2010	\$141,743.14	\$ -	0%
Entity C	03/02/2011	3/23/2011	3/31/2011	05/16/2011	\$2,771,375.56	\$2,768,702.36	99.9%

Source: Agreements and Finance System

(1) According to GP&L, Transmission and Distribution generated this invoice without processing through GP&L's Accounting Department. There were no invoice dates listed on the invoices associated with this contract.